



CHICAGO TRANSIT AUTHORITY

Audited Financial Statements

Fiscal Years Ended December 29, 1984
and December 31, 1983

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Ernst & Whinney



CHICAGO TRANSIT AUTHORITY

Audited Financial Statements

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and December 31, 1983**

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CHICAGO TRANSIT AUTHORITY

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Audited Financial Statements

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1984/83

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Chicago, Illinois 60606

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Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

We have examined the balance sheets of the Chicago Transit Authority ("Authority") (an Illinois municipal corporation) as of December 29, 1984 and December 31, 1983, and the related statements of operations, public investment and changes in working cash for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as described in the following paragraph.

As explained in Note H to the financial statements, the Authority reflects in its accounts, as contributed property, facilities which it has the exclusive right to operate. The recorded cost (approximately \$228 million) of this property represents estimated original cost thereof and has been obtained from various sources outside the Authority, principally from records maintained by the City of Chicago. In order to determine that these records are complete and accurate, a detailed study of the available supporting documentation must be made; however, the Authority has determined that it is not practicable to perform such a study at this time. Accordingly, it is not possible to determine what adjustments, if any, would be required to properly reflect the related property and equipment transactions in the financial statements.

The Authority finances its operations from two major sources of revenue: 1) system-generated revenues and 2) public funding. State legislation enacted in late 1983 has provided the Regional Transportation Authority ("RTA") with sufficient funding to meet the public funding needs of the Authority. However, the RTA has not recognized a liability to the Authority for operating assistance of approximately \$80 million and \$45 million as of December 29, 1984 and December 31, 1983, respectively. Such amounts have been recorded in the accompanying financial statements as receivable from the RTA. See Note B.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty relating to realization of amounts receivable from the RTA discussed in the preceding paragraph been known, and except for the effect of such adjustments, if any, as might have been determined to be necessary had the Authority substantiated the supporting documentation for the recorded cost of certain transportation property and equipment as discussed in the second preceding paragraph above, the financial statements referred to above present fairly the financial position of the Chicago Transit Authority at December 29, 1984 and December 31, 1983, and the results of its operations and the changes in its working cash for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Chicago, Illinois
June 7, 1985

BALANCE SHEETS

CHICAGO TRANSIT AUTHORITY

	December 29 1984	December 31 1983
ASSETS		
CURRENT ASSETS		
Working cash, including \$18,179,437 in 1984 and \$19,492,586 in 1983 required to be transferred to damage reserve fund--Note D	\$ 24,029,798	\$ 10,825,369
Grants receivable:		
From the RTA--Note B:		
Operating assistance	109,325,790	90,120,371
Capital improvement projects	<u>4,489</u>	<u>-</u>
	109,330,279	90,120,371
Less amount received from the City of Chicago--Note C	<u>(17,000,000)</u>	<u>(17,000,000)</u>
	92,330,279	73,120,371
Capital improvement projects from federal and state sources	<u>9,143,353</u>	<u>12,869,716</u>
	101,473,632	85,990,087
Accounts and miscellaneous grants receivable, net of allowance for doubtful accounts	7,916,675	2,676,889
Materials and supplies, net of allowances for excess and obsolete inventory	40,469,445	29,328,179
Prepaid expenses and other assets	<u>1,462,164</u>	<u>1,429,792</u>
TOTAL CURRENT ASSETS	175,351,714	130,250,316
OTHER FUNDS--Note E	1,785,616	1,725,883
INVESTMENTS RELATING TO EMPLOYEE BENEFIT PLANS		
Employees' deferred compensation plan--Note F	46,656,037	33,489,039
Supplemental retirement plan, at cost which approximates market--Note G	<u>2,153,900</u>	<u>1,835,828</u>
	48,809,937	35,324,867
TRANSPORTATION PROPERTY AND EQUIPMENT--Note H		
Land	17,081,231	17,123,535
Rail system	827,543,997	741,417,009
Bus system	253,533,785	240,131,200
Common and other	50,177,102	54,259,571
Progress payment on rail cars	<u>23,649,321</u>	<u>56,594,893</u>
	1,171,985,436	1,109,526,208
Less allowance for depreciation	<u>(357,758,139)</u>	<u>(338,360,105)</u>
	814,227,297	771,166,103
	<u>\$1,040,174,564</u>	<u>\$ 938,467,169</u>

	December 29 1984	December 31 1983
LIABILITIES AND PUBLIC INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 33,571,266	\$ 31,989,446
Payroll liabilities	52,683,515	44,918,472
Due City of Chicago--Note I	6,433,312	6,139,693
Unredeemed tokens	3,509,016	3,246,592
Advances, deposits and other	3,111,910	3,173,067
Estimated current portion of injury and damage reserve--Note D	6,000,000	7,000,000
Current portion of pension note payable and accrued interest--Note J	8,557,376	-
TOTAL CURRENT LIABILITIES	113,866,395	96,467,270
INJURY AND DAMAGE RESERVE--Note D	17,911,478	18,342,161
EMPLOYEES' DEFERRED COMPENSATION PLAN--Note F	46,656,037	33,489,039
LONG-TERM PENSION LIABILITY--Note J		
Note payable, less current portion in 1984	17,481,524	25,409,858
Accrued pension cost	50,699,776	32,055,797
	68,181,300	57,465,655
DEFERRED OPERATING ASSISTANCE--Note B	35,171,854	-
OTHER LONG-TERM LIABILITIES	6,166,976	5,532,024
PUBLIC INVESTMENT		
Contributed capital--Note H	1,139,244,707	1,054,932,998
Less allowance for depreciation of contributed transportation property and equipment	(321,449,569)	(284,377,857)
	817,795,138	770,555,141
Accumulated deficit (deduction)	(65,574,614)	(43,384,121)
	752,220,524	727,171,020
	<u>\$1,040,174,564</u>	<u>\$ 938,467,169</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS
CHICAGO TRANSIT AUTHORITY

	Fiscal Year Ended	
	December 29 1984	December 31 1983
OPERATING EXPENSES		
Labor	\$429,548,592	\$421,606,463
Materials and supplies	43,001,124	42,025,090
Fuel for revenue equipment	21,521,459	22,420,092
Electric power for revenue equipment	18,784,019	16,891,592
Provision for injuries and damages	10,990,800	3,168,000
Maintenance and repairs, utilities, rent and other	33,697,240	31,101,696
	<u>557,543,234</u>	<u>537,212,933</u>
Provision for depreciation	41,163,722	39,083,929
Interest charges for deferred pension liability-- Note L	<u>1,267,009</u>	<u>2,681,347</u>
	599,973,965	578,978,209
SYSTEM-GENERATED REVENUE		
Passenger transportation:		
Fare receipts	270,399,755	264,037,473
Charter service	606,448	609,795
	<u>271,006,203</u>	<u>264,647,268</u>
Advertising, concession, investment and other	8,407,873	5,478,631
Sale of tax benefits--Note K	2,813,935	4,072,660
Contributions from local governmental units--Note L	16,802,538	-
	<u>299,030,549</u>	<u>274,198,559</u>
OPERATING EXPENSES IN EXCESS OF SYSTEM-GENERATED REVENUE	300,943,416	304,779,650
PUBLIC FUNDING FROM RTA--Notes B and C	<u>241,681,211</u>	<u>253,852,472</u>
NET LOSS	<u>\$ 59,262,205</u>	<u>\$ 50,927,178</u>
DISPOSITION OF NET LOSS		
Net loss	\$ 59,262,205	\$ 50,927,178
Add credit arising from transfer of provision for depreciation of transportation property and equipment acquired from grants to contributed capital	<u>37,071,712</u>	<u>34,606,230</u>
NET LOSS TRANSFERRED TO ACCUMULATED DEFICIT	<u>\$ 22,190,493</u>	<u>\$ 16,320,948</u>

See notes to financial statements.

STATEMENTS OF PUBLIC INVESTMENT

CHICAGO TRANSIT AUTHORITY

		<u>Accumulated Deficit</u>
Balance at December 25, 1982	2	\$(27,063,173)
Net loss for 1983 charged to accumulated deficit		(16,320,948)
Transfer of provision for depreciation of transportation property and equipment acquired from grants	0)	
Contributions for transportation property and equipment additions and improvements--Note H	9	
BALANCE AT DECEMBER 31	1	<u>(43,384,121)</u>
Net loss for 1984 charged to accumulated deficit		(22,190,493)
Transfer of provision for depreciation of transportation property and equipment acquired from grants	2)	
Contributions for transportation property and equipment additions and improvements--Note H	9	
BALANCE AT DECEMBER 28	8	<u><u>\$(65,574,614)</u></u>

See notes to financial statements.

STATEMENTS OF PUBLIC INVESTMENT

CHICAGO TRANSIT AUTHORITY

	Contributed Capital				Accumulated Deficit
	Federal	State	Other	Total	
Balance at December 25, 1982	\$419,372,371	\$109,787,544	\$163,584,987	\$692,744,902	\$(27,063,173)
Net loss for 1983 charged to accumulated deficit					(16,320,948)
Transfer of provision for depreciation of transportation property and equipment acquired from grants	(27,473,886)	(6,329,479)	(802,865)	(34,606,230)	
Contributions for transportation property and equipment additions and improvements--Note H	<u>91,568,608</u>	<u>20,486,806</u>	<u>361,055</u>	<u>112,416,469</u>	
BALANCE AT DECEMBER 31, 1983	<u>483,467,093</u>	<u>123,944,871</u>	<u>163,143,177</u>	<u>770,555,141</u>	<u>\$(43,384,121)</u>
Net loss for 1984 charged to accumulated deficit					(22,190,493)
Transfer of provision for depreciation of transportation property and equipment acquired from grants	(29,460,889)	(6,795,245)	(815,578)	(37,071,712)	
Contributions for transportation property and equipment additions and improvements--Note H	<u>67,530,373</u>	<u>15,732,043</u>	<u>1,049,293</u>	<u>84,311,709</u>	
BALANCE AT DECEMBER 29, 1984	<u>\$521,536,577</u>	<u>\$132,881,669</u>	<u>\$163,376,892</u>	<u>\$817,795,138</u>	<u>\$(65,574,614)</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN WORKING CASH

CHICAGO TRANSIT AUTHORITY

	Fiscal Year Ended	
	December '29	December 31
	1984	1983
FROM OPERATIONS		
Application of working cash:		
Operating expenses	\$599,973,965	\$578,978,209
Less items not affecting working cash:		
Provision for depreciation	(41,163,722)	(39,083,929)
Provision for injuries and damages	(10,990,800)	(3,168,000)
Provision for pension expense	(17,624,727)	(15,635,850)
	<u>530,194,716</u>	<u>521,090,430</u>
Payments for injuries and damages	12,421,483	12,054,165
Increase in materials and supplies inventory	11,141,266	698,577
Increase in accounts receivable	5,239,786	-
Increase in grants receivable from the RTA	19,209,908	-
Decrease in advances, deposits and other	61,157	1,547,183
Decrease in long-term pension liability	-	3,025,897
Recognition of amount paid to City of Chicago by the RTA	-	3,000,000
Decrease in accounts payable and accrued liabilities	-	2,160,899
Other	<u>116,558</u>	<u>80,269</u>
	<u>578,384,874</u>	<u>543,657,420</u>
Source of working cash:		
System-generated revenue	299,030,549	324,601,331
Public funding from the RTA and the City of Chicago	241,681,211	203,449,700
Increase in deferred operating assistance	35,171,854	-
Increase in accounts payable and accrued liabilities	9,346,863	-
Increase in pension liability	1,648,294	-
Increase in other long-term liabilities	634,952	-
Increase in token liability	262,424	868,794
Decrease in grants receivable, for capital improvement projects from federal and state sources	3,726,363	6,268,799
Decrease in grants receivable from the RTA	-	5,418,235
Decrease in accounts receivable	-	190,401
	<u>591,502,510</u>	<u>540,797,260</u>
INCREASE (DECREASE) IN WORKING CASH FROM OPERATIONS	13,117,636	(2,860,160)
OTHER SOURCES (APPLICATIONS)		
Additions to transportation property and equipment and deposits on property, net of retirements	(84,224,916)	(112,387,112)
Grants for capital improvements	<u>84,311,709</u>	<u>112,416,468</u>
	<u>86,793</u>	<u>29,356</u>
INCREASE (DECREASE) IN WORKING CASH	13,204,429	(2,830,804)
Working cash at beginning of year	<u>10,825,369</u>	<u>13,656,173</u>
WORKING CASH AT END OF YEAR	<u>\$ 24,029,798</u>	<u>\$ 10,825,369</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CHICAGO TRANSIT AUTHORITY

Fiscal Years Ended December 29, 1984 and December 31, 1983

NOTE A--ORGANIZATIONAL DATA AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chicago Transit Authority ("CTA") was formed in 1945 pursuant to the Metropolitan Transportation Authority Act passed by the Illinois legislature. The CTA was established as an independent governmental agency (an Illinois municipal corporation) "separate and apart from all other government agencies" to consolidate Chicago's public and private mass transit carriers. The City Council of the City of Chicago has granted the CTA the exclusive right to operate a transportation system for the transportation of passengers within the City of Chicago.

Inventory Valuation: Materials and supplies inventories are stated at the lower of cost or market value. The CTA uses the average cost method to determine the cost of such inventories.

Transportation Property and Equipment and Depreciation: Transportation property (including major improvements) and equipment are recorded at cost. The cost of maintenance and repairs is charged to operations as incurred. The cost of transportation property sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the gain or loss is offset against the allowance for depreciation.

The provisions for depreciation of transportation property and equipment are calculated under the straight-line method at amounts based on the respective estimated lives of major asset classifications.

Included in the transportation system operated by the CTA are certain facilities owned by others. The CTA has the exclusive right to operate these facilities under the terms of the authorizing legislation and various long-term leases and other agreements and therefore considers it appropriate to reflect these amounts in its financial statements (including approximately \$112 million originally financed by the City of Chicago from its City Traction and City Transit Funds and so denoted in the CTA's accounts).

Retirement Plan: The CTA has a retirement plan for all employees with service greater than one year. Pension expense recorded by the CTA includes provision for current service costs and the amortization of past service cost over a period of approximately 25 years.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE A--ORGANIZATIONAL DATA AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES--Continued

Sale of Tax Benefits: The CTA records, as current income, the net proceeds received from the sale of tax benefits of buses and rail cars.

Reclassifications: Certain amounts in the 1983 financial statements have been reclassified to conform with the 1984 presentation.

NOTE B--RELATIONSHIP WITH REGIONAL TRANSPORTATION AUTHORITY

Since the inception (July 1, 1974) of the Regional Transportation Authority (RTA), the CTA had been receiving operating assistance from the RTA under various agreements ("Agreements"). Amounts received under these Agreements were used to finance operations, except for depreciation. Although the RTA was obligated to pay 100% of the CTA's public funding requirement (as defined in the Agreements), the RTA has not recognized amounts that exceeded RTA funds available for certain fiscal years.

In November, 1983, the Regional Transportation Authority Act ("Act") was amended by state legislation to provide for funding of public transportation in the six county region of Northeastern Illinois. The legislation reorganized the RTA by establishing a regional oversight board (RTA) and three service boards (Chicago Transit Authority, Commuter Rail Board and Suburban Bus Board). The amended Act requires, among other things, that the RTA approve the annual budget of the CTA, that the CTA obtain agreement from local governmental units to provide an annual monetary contribution of at least \$5,000,000 for public transportation and that the CTA (collectively with the other service boards) finance at least 50% of their operating costs, excluding depreciation, from system generated sources.

The amended Act defines the sources of funding to the RTA. Under the amended Act, each service board is entitled to a portion of the funds received by the RTA. The allocation of these funds to each service board is based on various methods as defined in the Act. For fiscal year 1984, the amount of funds allocable to the CTA was \$278,649,776 of which \$243,477,922 was needed to fund the current year operating deficit and unanticipated capital expenditures. The remaining \$35,171,854 has been deferred and will be used in future years for working capital purposes or for the provision or benefit of transportation in the metropolitan region.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE B--RELATIONSHIP WITH REGIONAL TRANSPORTATION AUTHORITY--Continued

As of December 29, 1984, the CTA has recorded an amount receivable from the RTA of approximately \$80.0 million which has not been recognized as a liability by the RTA. Approximately \$44.8 million of the unrecognized balance is substantially the result of the limited availability of RTA funds in prior years and approximately \$35.2 million of the unrecognized balance is due to the interpretation, by the RTA, of the amended Act. The components of the recognized and unrecognized balances are as follows:

	December 29 1984	December 31 1983
Recognized by RTA:		
Operating assistance	\$ 29,366,862	\$45,333,297
Capital improvement projects	4,489	-
	<u>29,371,351</u>	<u>45,333,297</u>
Unrecognized by RTA:		
Deferred operating assistance	35,171,854	-
Operating assistance:		
1982 fiscal year	13,832,273	13,832,273
1982 RTA payment to the City of Chicago	3,000,000	3,000,000
1981 fiscal year	17,000,000	17,000,000
1979 fiscal year	336,080	336,080
1978 fiscal year	10,618,721	10,618,721
	<u>79,958,928</u>	<u>44,787,074</u>
TOTAL GRANTS		
RECEIVABLE FROM RTA	<u>\$109,330,279</u>	<u>\$90,120,371</u>

CHICAGO TRANSIT AUTHORITY

NOTE C--RELATIONSHIP WITH THE CITY OF CHICAGO

During 1981 the CTA represented to the City of Chicago ("City") that it would be unable to continue to fulfill its obligations under its franchise agreement without additional public funding. On August 1, 1981 the City and the CTA entered into a Financial Assistance Agreement ("Agreement") under which the City agreed to grant to the CTA a sum equal to the difference between (a) the public funding requirements of the CTA, as defined in the RTA Financial Assistance Grant Agreement ("RTA Agreement") and (b) the sum equal to the funds provided by the RTA to the CTA pursuant to the RTA Agreement, provided that the aggregate sum paid by the City to the CTA would not exceed \$100 million for the period ended December 31, 1981, or thereafter exceed such funds as appropriated by the City Council. The grant is to be used by the CTA in providing public transportation services during the grant period. During 1981 the CTA received a grant of \$20 million. In the event the CTA's own cash resources exceed existing or projected cash requirements, the City may demand and shall be entitled to repayment of any grant made under the Agreement. The payment of additional monies under the Agreement is subject to the availability of sufficient funds in the general corporate fund of the City. No additional funds were received during 1983 or 1984. During 1982 the RTA paid the City \$3 million toward the repayment of this grant.

The Agreement shall be terminated in the event of (a) cessation of public transportation services by the CTA, (b) termination of the RTA Agreement, (c) termination of the current level of payments by the RTA under the RTA Agreement, (d) written notice from the City that funds are no longer available for payment of the grant or (e) the failure of the CTA to conform to or perform any term covenant or condition of the Agreement.

NOTE D--DAMAGE RESERVE FUNDING

Chapter 111 2/3, Section 339 of the Illinois Revised Statutes, requires the CTA to separately fund the damage reserve. At December 29, 1984 and December 31, 1983, transfers amounting to \$18,179,437 and \$19,492,586, respectively, were required to be made to this fund from working cash. In recent years the CTA has sought to conserve its cash resources and protect against delays in the receipt of operating assistance grants and it is the present policy of the CTA to make transfers from the working cash account into the damage reserve fund only when required to meet current expenditures. See Note E regarding amounts maintained in this fund.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE E--OTHER FUNDS

Funds segregated for special purposes and represented by cash on deposit and short-term investments are as follows:

	December 29 1984	December 31 1983
Damage reserve--Note D	\$ 55,564	\$ 163,824
Grant from the State of Illinois available for other contractual obligations	-	168,585
Unapplied proceeds from sale of real estate	<u>1,730,052</u>	<u>1,393,474</u>
	<u>\$1,785,616</u>	<u>\$1,725,883</u>

NOTE F--EMPLOYEES' DEFERRED COMPENSATION PLAN

The Employees' Deferred Compensation Plan provides that employees may elect to have a portion of their compensation deferred for payment upon retirement, disability, death or termination of service. Participating employees may request that their deferred compensation be invested, at the discretion of the CTA, in any of several investment funds. The recorded amounts are stated at aggregate fair market value of such investment funds. All costs and expenses of administering the plan are borne by the participants.

Plan activity was as follows:

	1984	1983
Balance at beginning of year	\$33,489,039	\$23,436,949
Additions (deductions):		
Employee contributions	12,033,427	8,744,117
Plan earnings	3,157,485	2,420,607
Administrative expenses	(99,036)	(98,627)
Employee withdrawals	<u>(1,924,878)</u>	<u>(1,014,007)</u>
Balance at end of year	<u>\$46,656,037</u>	<u>\$33,489,039</u>

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE G--SUPPLEMENTAL RETIREMENT PLAN

Members of the Chicago Transit Board and certain officers, executives, supervisory and professional employees of the CTA are covered by a supplemental defined benefit retirement plan in addition to their participation in the regular CTA pension plan (see Note J). The amounts charged to operations for the supplemental retirement plan were \$334,884 and \$382,458 in 1984 and 1983, respectively.

NOTE H--TRANSPORTATION PROPERTY AND EQUIPMENT

Additional information with respect to transportation property and equipment of the CTA is as follows:

	December 29 1984	December 31 1983
Funding source:		
Federal (principally DOT-UMTA)	\$ 741,894,527	\$ 680,590,303
State (principally Illinois DOT)	172,459,730	158,185,922
City of Chicago	112,390,738	113,068,107
CTA (generally prior to 1973)	142,800,776	153,679,415
Other	2,439,665	4,002,461
	<u>\$1,171,985,436</u>	<u>\$1,109,526,208</u>
Type of property:		
Land	\$ 17,081,231	\$ 17,123,535
Buildings	200,625,257	190,898,069
Elevated structures, tracks, tunnels and power system	311,914,481	303,205,050
Transportation vehicles	493,371,330	412,210,787
Signals	75,166,714	75,234,303
Common and other	50,177,102	54,259,571
Progress payments on rail cars	23,649,321	56,594,893
	<u>\$1,171,985,436</u>	<u>\$1,109,526,208</u>

Included in the accounts of the CTA are amounts relating to certain facilities (principally State Street and Dearborn Street subways, the Congress, Dan Ryan and Kennedy expressway rapid transit lines and 150 rapid transit cars) at estimated original cost of approximately \$228 million. The estimated original cost has been obtained from various sources, including

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE H--TRANSPORTATION PROPERTY AND EQUIPMENT--Continued

reports of the City of Chicago, project status reports prepared by various agencies, contracts, bills of sale and, in other instances, original invoices. In order to determine that these records are complete and accurate, a detailed study of the available supporting documentation must be made. Though the CTA considers it desirable that such a study be made, the lack of available resources and the commitment to perform tasks having higher priorities have led the CTA to determine that it is not practicable to initiate such a study at this time. In the opinion of management any adjustment resulting from such a study would not be significant.

As of December 29, 1984, the CTA has capital grant contracts with the federal Department of Transportation, Urban Mass Transportation Administration (DOT-UMTA) and with the State of Illinois Department of Transportation (Illinois DOT) under the Transportation Bond Act for approximately \$1.127 billion. Under these contracts the CTA is acquiring additional motor buses and rapid transit cars, as well as renewing and improving various portions of track structures and related operating systems. It is anticipated that DOT-UMTA will finance approximately 80% of the total cost of these projects, with the balance of the cost being financed principally by the State of Illinois. Through December 29, 1984, approximately \$844 million has been expended by the CTA under these capital grant contracts, and substantial commitments have been entered into for the remainder.

NOTE I--DUE CITY OF CHICAGO

Under certain operating and lease agreements with the City of Chicago the CTA is obligated to make annual payments for the purpose of reimbursing the City of Chicago for expenditures made in equipping some of the related facilities. Rental expense for these annual obligations (\$293,619 in 1984 and \$300,838 in 1983) has been reflected in the financial statements of the CTA as operating expenses subject to reimbursement by the RTA. Only minor payments have been made for this liability since 1969.

NOTE J--PENSION PLAN

Under the terms of the CTA Pension Plan Agreement, as amended December 1, 1974, the CTA was required to contribute 13% of compensation costs to a contributory defined benefit retirement plan for the benefit of all non-temporary employees. Employees with service greater than one year were required to contribute 7% of their compensation to the plan.

CHICAGO TRANSIT AUTHORITY

NOTE J--PENSION PLAN--Continued

On February 2, 1982, the CTA entered into an Amendment and Extension Agreement ("Agreement") of the Collective Bargaining Agreement of December 1, 1979 with the transit unions. Under the terms of the Agreement, Section 7 of the Pension Plan (Contributions to the Fund) was amended to provide for, among other things, suspension of the payment of pension contributions for a maximum period of 17 consecutive months commencing with payments due for pay periods ending in January 1982 and thereafter. The Agreement also provides for the suspension of the deduction of employee contributions to the Plan commencing March 1, 1982 and continuing thereafter for 14 consecutive months. On December 19, 1983, the Agreement was amended to provide for, among other things, the suspension of the payment of CTA and employee pension contributions commencing with payments due for pay periods ending in June, 1983 and continuing thereafter for 18 consecutive months. Commencing on November 30, 1984, the CTA and qualified employees were to resume contributions to the Plan at the rates of 13% and 7%, respectively, of qualified wages. However, as the Collective Bargaining Agreement has expired as of November 30, 1984 (see Note M), no pension contributions have been made to the Plan since that date, nor has the CTA withheld any employee pension contributions. Beginning April 7, 1985, the CTA has elected to make pension contributions to an escrow bank account at the rate of 3% of qualified wages until a new collective bargaining agreement is ratified by the transit unions.

The CTA suspended its payment of contributions to the Plan for the pay periods commencing May 24, 1981. The amended Agreement states that the CTA shall not be deemed in default of the terms and conditions of the Plan by reason of failure to make the required contributions from May 24, 1981 through December 26, 1981, provided that interest is paid thereon at the rate of 10% per annum from the date such contributions should have been made to December 31, 1983 and 5% per annum thereafter. Under the amended Certificate of Indebtedness, the principal amount, together with interest at 5% per annum on the remaining unpaid principal, will be paid in 36 equal monthly installments commencing January 31, 1985, with interest paid semiannually. As of December 29, 1984 and December 31, 1983, the unpaid principal balance was approximately \$25.4 million. Unpaid interest through December 29, 1984 was \$793,253.

The charge to operations for 1984 and 1983 pension expense was approximately \$19.2 million and \$15.9 million, respectively, on the basis of actuarial assumptions as follows: (1) interest at 7% per annum,

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE J--PENSION PLAN--Continued

(2) salary scale at 5% per annum, (3) period for amortization of past service cost of approximately 25 years and (4) alternative assumptions for disability benefits and retirement age were used in 1984, which were considered to be more consistent with the valuation of other plan benefits and with the plan amendments adopted on January 1, 1984. Use of the alternative assumptions for disability benefits and retirement age noted above and the plan amendments adopted on January 1, 1984 had the effect of increasing the actuarial present value of accumulated benefits by approximately \$67.8 million (plan amendments--\$46.0 million; change in assumptions--\$21.8 million) as of January 1, 1984.

Accumulated benefit information of the Plan, as estimated by consulting actuaries, and Plan net assets, are approximately as follows:

	January 1	
	1984	1983
Actuarial present value of accumulated benefits:		
Vested	\$430,670,000	\$373,294,000
Nonvested	<u>86,307,000</u>	<u>57,062,000</u>
	<u>\$516,977,000</u>	<u>\$430,356,000</u>
Net assets available for benefits (including note receivable from the CTA of \$25,409,858)	<u>\$611,389,000</u>	<u>\$580,283,000</u>

NOTE K--SALE OF TAX BENEFITS

The CTA has entered into agreements with outside entities to sell and lease back, for tax purposes, a percentage interest in 324 rail cars and 364 buses. The transactions represent the sale of future tax benefits relating to depreciation of revenue vehicles under the guidelines of Section 168(f)(8) of the Internal Revenue Code.

Under the terms of the agreements, should any revenue vehicle identified in the contract be retired from service prior to the end of the lease period, a portion of the proceeds would be required to be refunded to the buyer.

NOTES TO FINANCIAL STATEMENTS--Continued

CHICAGO TRANSIT AUTHORITY

NOTE L--CONTRIBUTIONS FROM LOCAL GOVERNMENTAL UNITS

The Regional Transportation Authority Act, as amended by state legislation in November, 1983, requires the CTA to obtain annual monetary contributions of at least \$5,000,000 from local governmental units for public transportation. As a result, the CTA has entered into an agreement with the County of Cook and the City of Chicago to receive \$5,000,000 for public transportation for fiscal year 1984.

Effective January 1, 1984, the Chicago Urban Transportation District was abolished by state legislation with all its remaining assets and liabilities being transferred to the CTA. The CTA received approximately \$12,391,000 in assets (primarily cash) and assumed approximately \$588,000 in liabilities. In accordance with the legislation, the CTA used the excess assets in fiscal year 1984 to finance certain costs which developed, maintained and improved public transportation in the metropolitan region.

NOTE M--LABOR CONTRACT

The Collective Bargaining Agreement of December 1, 1979 with the transit unions expired on November 30, 1984. No new labor agreement has been reached with the transit unions and contract negotiations are currently in arbitration. It is not expected that any changes in terms will materially affect the financial statements.

NOTE N--SUBSEQUENT EVENT

On January 15, 1985, \$40,000,000 of 7 1/4% Grant Anticipation Notes, Series 1984 ("Notes") were issued for the purpose of covering temporary monthly cash-flow deficits and are in anticipation of certain grant payments accruing to the CTA during fiscal year 1985 from the RTA. The Notes are due June 15, 1986.

Ernst & Whinney

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Chicago Transit Board
Chicago Transit Authority
Chicago, Illinois

The audited financial statements of the Chicago Transit Authority ("Authority") and our report thereon are presented in the preceding section of this report. The information presented hereinafter is for purposes of additional analysis and is not required for a fair presentation of the financial position, results of operations, or changes in working cash of the Authority. Such information has been subjected to the auditing procedures applied in our examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Whinney

Chicago, Illinois
June 7, 1985

STATEMENTS OF PUBLIC FUNDING

CHICAGO TRANSIT AUTHORITY

	For the Periods	
	January 1, 1984	December 26, 1982
	Through December 29, 1984	Through December 31, 1983
Net operating expenses eligible for public funding, exclusive of depreciation	\$539,918,507	\$521,577,083
Interest on pension note payable	<u>793,253</u> 540,711,760	<u>6,473,948</u> 528,051,031
System-generated revenues	<u>299,030,549</u>	<u>274,198,559</u>
Public funding for operations	241,681,211	253,852,472
Unanticipated capital expenditures	<u>1,796,711</u> 243,477,922	<u>299,047</u> 254,151,519
Deferred operating assistance	<u>35,171,854</u>	<u>-</u>
TOTAL PUBLIC FUNDING	<u>\$278,649,776</u>	<u>\$254,151,519</u>
Farebox Recovery Ratio (System generated revenue as a percent of operating expenses)	<u>55.3%</u>	<u>51.9%</u>



